

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2017-230

**NOTICE OF THE UNITED STATES POSTAL SERVICE
OF CHANGES IN RATES OF GENERAL APPLICABILITY
FOR A COMPETITIVE PRODUCT,
ESTABLISHED IN GOVERNORS' DECISION NO. 16-9
(July 28, 2017)**

Pursuant to 39 U.S.C. § 3633, 39 C.F.R. § 3015.2, and Order No. 4009,¹ the United States Postal Service hereby gives notice of changes in rates of general applicability and of concomitant classification changes for a competitive product: specifically, the “Retail” price category of First-Class Package Service (formerly First-Class Mail Parcels).

In Order No. 4009, the Commission conditionally approved the transfer of the First-Class Mail Parcels Retail (Single-Piece) price category from the market dominant product list to the competitive product list.² In that Order the Commission also approved conforming MCS changes, which, among other things, added services identical to the First-Class Mail Parcels Retail (Single Piece) price category to the existing competitive First-Class Package Service (FCPS) product.³ The Commission conditioned the transfer and conforming MCS changes on the subsequent proposal, review, and

¹ Order No. 4009 – Order Conditionally Approving Transfer, PRC Docket No. MC2015-7 (July 20, 2017) [hereinafter “Order No. 4009”].

² *Id.* at 41.

³ *Id.* at 39-41.

approval of prices for the transferred price category.⁴ In compliance with this condition, this Notice proposes prices for the new “Retail” category of the competitive FCPS product.⁵

In its order the Commission also stated that “transferring commercial First-Class Mail Parcels Retail (Single-Piece) price category to the competitive product list will have little impact on the ability of all competitive products collectively to cover an appropriate share of institutional costs.”⁶ In the attached projection of cost coverage and contribution analysis the Postal Service estimates that, once the First-Class Mail Parcels Retail (Single Piece) price category is added to the competitive FCPS product, the cost coverage for FCPS will remain well above 100 percent. Therefore, the Postal Service has determined that the FCPS product will continue to cover its costs and make an appropriate contribution to institutional costs.

In accordance with § 3015.2(b), this notice provides the Governors’ Decision establishing the proposed changes (Attachment A).⁷ That decision contains a statement of explanation and justification. In further compliance with section 3015.2(b), related Mail Classification Schedule (MCS) changes, including a schedule of the

⁴ *Id.* at 3, 41.

⁵ The proposed prices ensure that the new “Retail” price category of First-Class Package Service complies with 39 U.S.C. § 601(b)(1). In other words, the prices for the new “Retail” price category will be at least six times the price currently charged for the first ounce of a Single-Piece First-Class Mail Stamped Letter.

⁶ Order No. 4009, *supra* note 1, at 38.

⁷ The Governors reviewed and approved the actual prices attached to this notice, as evidenced by the proposed MCS rate schedule that was attached to the Governors Decision. The 9.9 percent price increase referred to in Governors’ Decision No. 16-9 represents the weighted average of the proposed price increases (across all price cells) based on FY 2015 volume distributions.

proposed rates, are attached to the Governors' Decision.⁸ The proposed rate and classification changes are scheduled to take effect on September 3, 2017.

Also being filed herewith is a non-public annex showing FY 2018 projected volumes, revenues, attributable costs, contribution, and cost coverage for each price category within the First-Class Package Service competitive product. Additionally, the Postal Service is filing price adjustment calculations supporting the 9.9 percent weighted average price increase for First-Class Package Service - Retail. An application for non-public treatment of these materials is attached to this pleading, along with a redacted, public version of the annex and supporting price increase calculation.⁹

The Governors' Decision and record of proceedings will be sent for publication in the Federal Register, in accordance with 39 U.S.C. § 3632(b)(2).

⁸ In Order No. 4009, the Commission approved MCS changes reflecting the transfer of the First-Class Mail Parcels Retail (Single-Piece) price category to the competitive product list. The MCS changes attached to the Governors' Decision update section 2125.6 by adding the rates approved by the Governors to the price cells that are shown as "TBD" in Order No. 4009.

⁹ The public version of the FY 2018 projected volumes, revenues, attributable costs, contribution, and cost coverage for FCPS is included with this Notice as Attachment B. The public version of the calculations supporting the 9.9 percent increase is attached to this Notice at Attachment C. The application for nonpublic treatment is attached to this Notice at Attachment D.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ATTACHMENT A

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON CHANGES
IN RATES OF GENERAL APPLICABILITY FOR COMPETITIVE PRODUCTS (GOVERNORS'
DECISION No. 16-9)**

December 5, 2016

STATEMENT OF EXPLANATION AND JUSTIFICATION

Pursuant to authority under section 3632 of title 39, as amended by the Postal Accountability and Enhancement Act of 2006 ("PAEA"), I establish price changes for the Postal Service's shipping services (competitive products), specifically for First-Class Package Service. The price changes are described generally below, with a schedule of the new prices in the attachment.

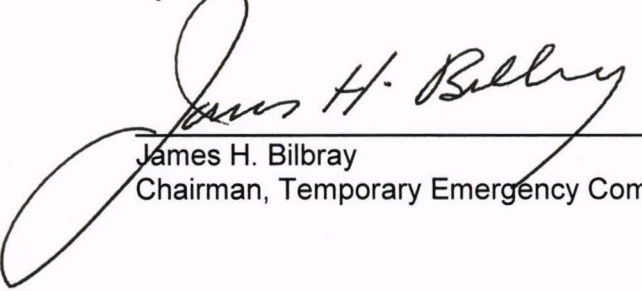
If management is given the authority by the Postal Regulatory Commission to effectuate a transfer of First-Class Mail Retail parcels to the competitive product list, I hereby authorize the attached prices for the new First-Class Package Service Retail parcels price category. These changes reflect a 9.9 percent average increase over the prices in effect for First-Class Mail Retail parcels, as of January 22, 2017. I further authorize any additional conforming Mail Classification Schedule changes that may be necessary to implement the transfer.

The changes I establish should enable each competitive product to cover its attributable costs (39 U.S.C. § 3633(a)(2)) and should result in competitive products as a whole complying with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7(c), requires competitive products collectively to contribute a minimum of 5.5 percent to the Postal Service's institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products should arise (39 U.S.C. § 3633(a)(1)). I therefore find that the new prices are in accordance with 39 U.S.C. §§ 3632-3633 and 39 C.F.R. § 3015.2.

ORDER

The changes in prices set forth herein shall be effective thirty (30) days after management has filed appropriate notice of these changes with the Postal Regulatory Commission ("Commission"). I direct the Secretary to have this decision published in the *Federal Register* in accordance with 39 U.S.C. § 3632(b)(2), and direct management to file with the Commission appropriate notice of these changes, unless this decision has been superseded by a subsequent decision. Further, this decision may be rescinded in the event any new Governor is confirmed by the Senate prior to the filing of the notice of adjustment with the Commission that is authorized herein, and a majority of Governors then in office vote to do so.

By The Governors:

A large, stylized handwritten signature in black ink, which appears to read "James H. Bilbray". The signature is written over a horizontal line.

James H. Bilbray
Chairman, Temporary Emergency Committee of the Board of Governors

Attachment to Governors' Decision No. 16-9

MAIL CLASSIFICATION CHANGES

PART B

COMPETITIVE PRODUCTS

* * * * *

2125 First-Class Package Service

* * * * *

2125.6 Prices

* * * * *

Retail¹

<u>Maximum Weight (ounces)</u>	<u>Single-Piece (\$)</u>
<u>1</u>	<u>\$3.00</u>
<u>2</u>	<u>\$3.00</u>
<u>3</u>	<u>\$3.00</u>
<u>4</u>	<u>\$3.00</u>
<u>5</u>	<u>\$3.16</u>
<u>6</u>	<u>\$3.32</u>
<u>7</u>	<u>\$3.48</u>
<u>8</u>	<u>\$3.64</u>
<u>9</u>	<u>\$3.80</u>
<u>10</u>	<u>\$3.96</u>
<u>11</u>	<u>\$4.19</u>
<u>12</u>	<u>\$4.36</u>
<u>13</u>	<u>\$4.53</u>

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

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ATTACHMENT B

**FIRST CLASS PACKAGE SERVICE (9.9% price increase for Retail category)
Full Year (September 3, 2017 Implementation)**

FIRST CLASS PACKAGE SERVICE CONTRIBUTION & COST COVERAGE ANALYSIS					
Fiscal Year 2018	FY2018	FY2018	FY2018	FY2018	FY2018
<i>September 3, 2017 Implementation</i>	Revenue	Volume	Attributable Cost ⁴	Contribution	Cost
(millions)					<u>Coverage</u>
FIRST CLASS PACKAGE SERVICE - RETAIL					
Current Prices ¹					
New Prices ²					
Change					
FIRST CLASS PACKAGE SERVICE - COMMERCIAL ³					
Current Prices					
New Prices					
Change					
TOTAL					
Current Prices					
New Prices					
Change					

Note:

1. Assuming prices do not change.
2. Assuming 9.9% price increase for Retail category implemented on Sep.3, 2017.
3. First-Class Package Service - Commercial analysis does not include NSAs.
4. Attributable Cost = Cost Per Piece * Volume

Cost Per Piece from 2016 CRA:

ATTACHMENT C

FCPS - Retail

	FY 2015 Vol.	2017	FY Baseline	Transfer	Transfer
	(000)	Prices	Rev. (000)	Prices	Rev. (000)
0 to 1 oz		\$2.67		\$3.00	
1 to 2 oz		\$2.67		\$3.00	
2 to 3 oz		\$2.67		\$3.00	
3 to 4 oz		\$2.67		\$3.00	
4 to 5 oz		\$2.85		\$3.16	
5 to 6 oz		\$3.03		\$3.32	
6 to 7 oz		\$3.21		\$3.48	
7 to 8 oz		\$3.39		\$3.64	
8 to 9 oz		\$3.57		\$3.80	
9 to 10 oz		\$3.75		\$3.96	
10 to 11 oz		\$3.93		\$4.19	
11 to 12 oz		\$4.11		\$4.36	
12 to 13 oz		\$4.29		\$4.53	
Totals					
Total Incremental Rev (000)					
Percent Change					9.9%

ATTACHMENT D

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21, the Postal Service hereby applies for non-public treatment of the projected revenue, volume, attributable cost, contribution and cost coverage data in the unredacted version of the annex to the Notice of the United States Postal Service of Changes in Rates of General Applicability for a Competitive Product, Established in Governors' Decision No. 16-9, as well as the supporting price change calculations, which include disaggregated product volume and revenue distribution information by price cell. The materials consist of spreadsheets that contain calculations to determine the weighted average price increase and cost coverage for each price category within the competitive product that is the subject of this docket. The Postal Service hereby furnishes the justification required for this application by each subsection of 39 C.F.R. § 3007.21(c), as enumerated below. For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials. The Postal Service is concurrently filing redacted versions of these files, where it has determined redactions to be practicable.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public consist of information of a commercial nature, which under good business practice would not be publicly disclosed. In the Postal Service's opinion, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3).¹ Because the portions of the materials which the Postal Service is applying to file only under seal fall within the

¹ In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

- (2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;**

None.

- (3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;**

The redacted information consists of the projected revenue, volume, attributable cost and cost coverage for each price category within the competitive product that is the subject of this docket. The Postal Service has filed information concerning the calculations used to develop the weighted average price increase by product and cost coverage. Protected information in the spreadsheets includes volume and revenue by price cell, as well as product-specific cost data and other supporting data. Such information for competitive product categories is commercially sensitive at the disaggregated, cell-specific level shown in the spreadsheets.

- (4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;**

If competitors of the Postal Service were to have access to this information, they would likely focus their marketing and price cutting efforts on the Postal Service's most profitable products. This will lead to erosion of contribution of these products through lost sales and/or the need to lower prices to compete. Postal product cost and contribution information would provide suppliers of postal transportation and other services with information they could use to seek higher rates for services they provide. This would lead to higher postal costs and loss of contribution. Although the extent of the commercial harm is difficult to quantify, given that Shipping Services is a multi-billion dollar enterprise, even a small change in market share, prices, or costs could lead to

millions of dollars in lost revenue, higher costs, and lower contribution margins. It is highly likely that if this information were made public, the Postal Service's competitors and suppliers would take advantage of it almost immediately.

Competitors could use the product-specific revenue and volume information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical information about relevant product trends (e.g., average revenue per piece, average weight per piece).

(5) At least one specific hypothetical, illustrative example of each alleged harm;

Identified harm: Competitors could use product cost, contribution, or cost coverage information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Cost, contribution and/or cost coverage information is released to the public and available to a competitor. The competitor assesses the profitability of certain services based on the data released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service has substantial contribution, thereby hindering the Postal Service's ability to maintain these customers.

Identified harm: Competitors could use disaggregated product volume and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment, and also during negotiations with the Postal Service.

Hypothetical: Disaggregated revenue, volume, and weights contained in the Nonpublic Annex are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of certain services on a per-piece or per-ounce basis or the Postal Service's relative concentration in certain

service offerings. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the market for domestic parcel shipping products, as well as their consultants and attorneys. Additionally, suppliers of transportation or other services to the Postal Service that affect costs for competitive services should not have access to these materials; this restriction should include their consultants and attorneys.

(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.